

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

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Recent economic trends

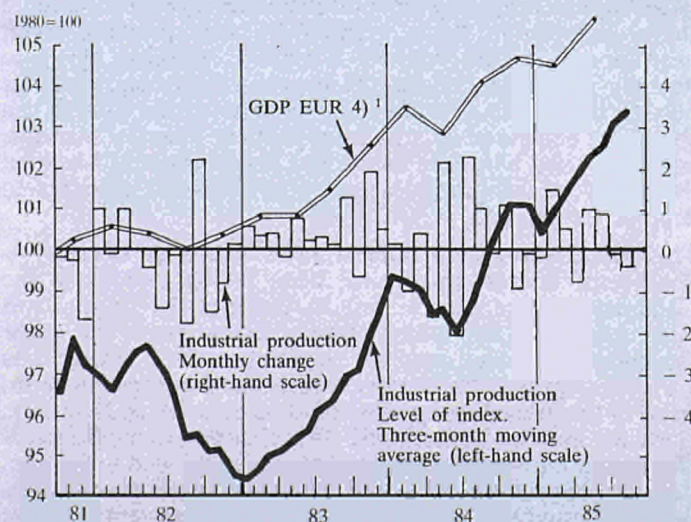
*In this issue:
Publication of the
Commission's Annual Economic
Report 1985-86*

Insignificant fall in industrial production in August. — The Community's industrial production (s.a.) fell by 0,3% in August, after declining by 0,1% in July. The level of the August index (estimated on the basis of the six sets of data available) was heavily influenced by the 2,5% fall in industrial production in Germany. However, this is a reflection of seasonal factors, notably the change during the holiday period, which the seasonal adjustment procedure has not fully taken into account. The Community's industrial production (measured by the three-month moving average) has been on a rising trend since the beginning of the year, and this continued, but at a slower pace. Among the member countries, the trend was positive in Denmark, Germany, Greece, France and the Netherlands. In Denmark, it has again been rising for two months, after the upsets due to the strike in March. In Germany, the trend of industrial production has been climbing since the start of the year. In France, the slight rise recorded throughout 1985 is also being confirmed. In Greece, the trend has fluctuated several times in the last few months, while the rise recorded in the Netherlands reverses a negative trend which has been evident since March. In the other five countries, the latest figures show that industrial production is tending to fall. In the United Kingdom, the decline has been in evidence for two months, primarily because of the drop in oil production in the summer. In Belgium, the trend was recently reversed, after rising for several months, mainly because of the poor outturn for July. But there are several reasons for believing that this is only a temporary setback, with the July fall probably due to statistical reasons. In Ireland, the decline seems due to the particularly poor summer weather, while in Italy the downward trend since March suggests that the slackening of production is more lasting.

Encouraging change in the unemployment rate — After standing still at 11,2% from June to August, the unemployment rate declined slightly in September and settled at 11,1%. The improvement observed in almost all the countries seems to reflect not only the widespread start of training courses and work familiarization schemes but also the increase in activity and the stabilization of the labour market

in certain countries. In Belgium, the fall in the unemployment rate recorded since May continued (the March and April data are not comparable, see Note 6). The labour market situation continued to improve in Denmark, where the estimated unemployment rate of 8,4% is now the lowest of all the member countries after Luxembourg. The unemployment rate also fell in the Netherlands, thus returning to a favourable trend which was temporarily halted in June and July. After standing still for several months, the unemployment rate in France and the United Kingdom showed some signs of improvement, falling from 10,5% to 10,3% in France and from 12,2% to 12,1% in the United Kingdom. In Italy and Ireland, the slight improvement noted in August represents a

GRAPH 1 : Industrial production and gross domestic product (s.a.) - EUR total



¹ France, Germany, Italy and UK: quarterly figures

break in the worsening unemployment trend observed throughout this year. In Germany and Luxembourg, there was no change in the situation, with the unemployment rate remaining at 8,5% and 1,6% respectively.

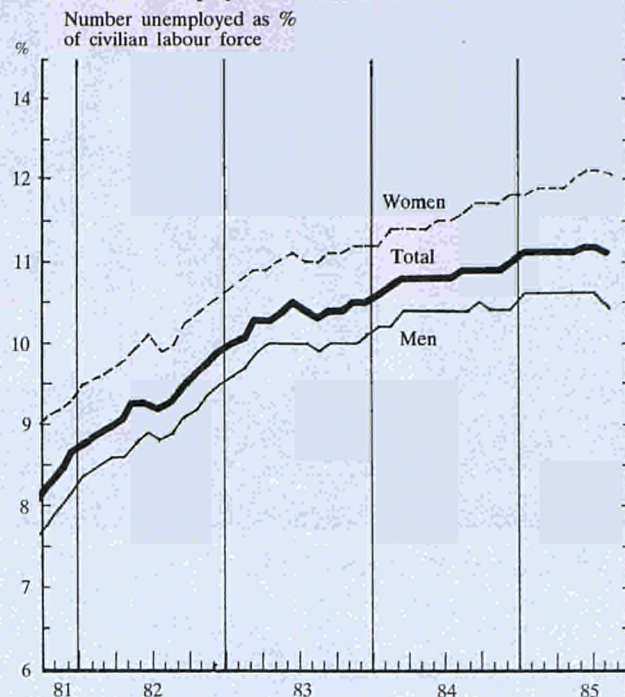
Inflation trend continues to slowdown — The index of consumer prices in the Community rose by 0,3% in September after remaining unchanged in August. On a seasonally adjusted basis the rate of increase was 0,3% in both months. The trend rate of inflation, measured as the seasonally adjusted annual rate over six months, eased further to 4,4% in September from 5,2% during the previous month. The deceleration has been in evidence in all Community countries for a number of months but for Greece some acceleration in the trend occurred in August and September. As a result, the degree of divergence of price changes within the Community, measured as the weighted standard deviation of inflation trends in each country, widened somewhat over the past two months. The index of consumer prices in the Community in July was 5,3% higher than a year earlier with changes over twelve months ranging from 2,2% in Germany to 20,1% in Greece.

Visible trade balance significantly improved — The Community's trade performance continued to improve through June and July 1985, when the seasonally adjusted trade deficit fell to 651 and 177 million ECU respectively as against 2211 million ECU in April and 780 million ECU in May (Table A.5). The three-month moving average confirms this improvement. Because of the large deficits at the beginning of the year 1985, however, the cumulative deficit for the first seven months of 1985 (14077 million ECU) is only just lower than the 1984 figure (14724 million ECU) and still higher than that in 1983 (12569 million ECU). Among Member States the German surplus remained at the high level reached in April and May: Germany's second quarter surplus of 8631 million ECU represents more than a doubling of the figure for the same period in 1984 (3846 million ECU). The Italian deficit remained high in June, while preliminary figures for July suggest a sharp improvement. The BLEU as well as Denmark, Ireland and the Netherlands show modest improvements in their trade balances in June/July compared to the April/May 1985 results. The deficit of France improved significantly in June but fell back again in July. The deficit in the United Kingdom rose to 960 million ECU in June and 943 million ECU in July after the lull in May following the higher levels recorded earlier in the year.

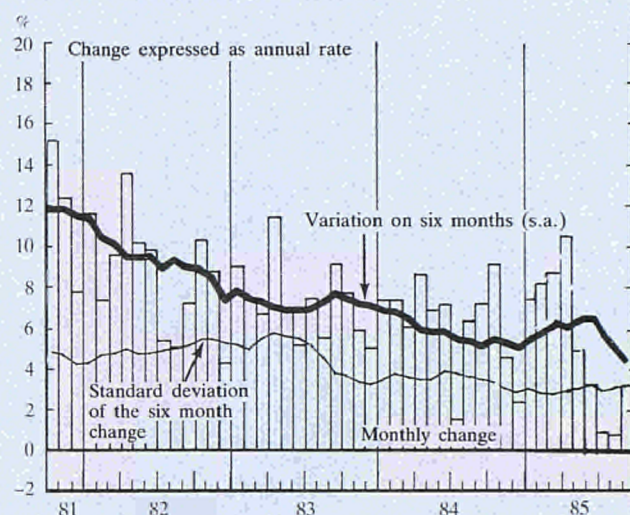
Monetary growth is irregular — As a Community average, monetary growth, which has been very low in May (0,1%), increased in June (1,3%) and again fell back to 0,1% in July. In June, the rate of money creation registered a marked increase in Denmark, Germany, France and the United Kingdom; however, in July monetary growth slowed down in Denmark, while the money supply remained static in Germany and actually fell in France and the United Kingdom. The data available for August show an increase in monetary growth in most of the Member States: in Denmark, the chief reason is a substantial increase in bank deposits, in Germany, large capital inflows from non-residents and in Greece, a sharp increase in loans granted by the specialist credit institutions. In the United Kingdom, sterling M3 rose strongly in August, taking the growth of this aggregate far outside the 5% to 9% target range. The excess growth can chiefly be explained by structural shifts in financial markets, and the United Kingdom authorities have decided to abandon the policy of using extra sales of government securities to depress sterling M3.

The fall in short-term interest rates halted in October — Short-term interest rates have been falling steadily in the Community since March, but in October the decline was interrupted by a two-tenths of a percentage point rise in the Community average over the September level, taking it to 9,5%. As early as September a turnaround in the downward trend of the preceding months could be detected in Denmark, Germany and the Netherlands. This change was confirmed in October in the same three countries and extended to Greece, Italy and the United Kingdom. However, in Belgium, where the discount rate was twice reduced by half a percentage point in September and in October, the price of money continued to decline in October, and the money market interest rate

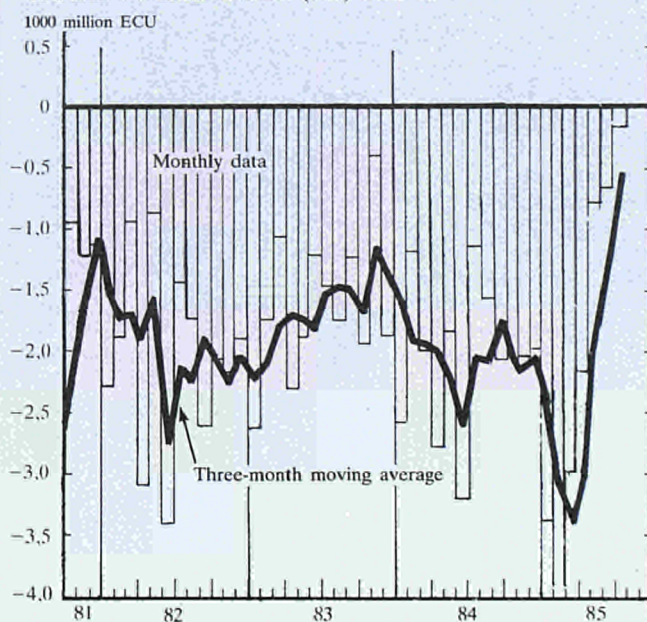
GRAPH 2 : Unemployment (s.a.), EUR 9



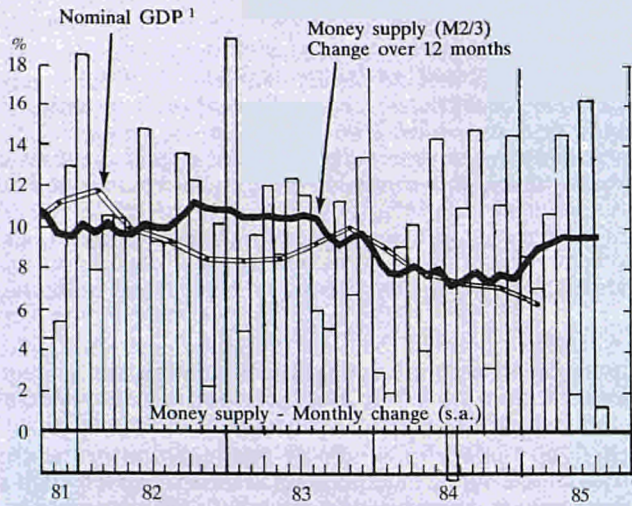
GRAPH 3 : Consumer prices EUR 10



GRAPH 4 : Trade balance (s.a.) EUR 10

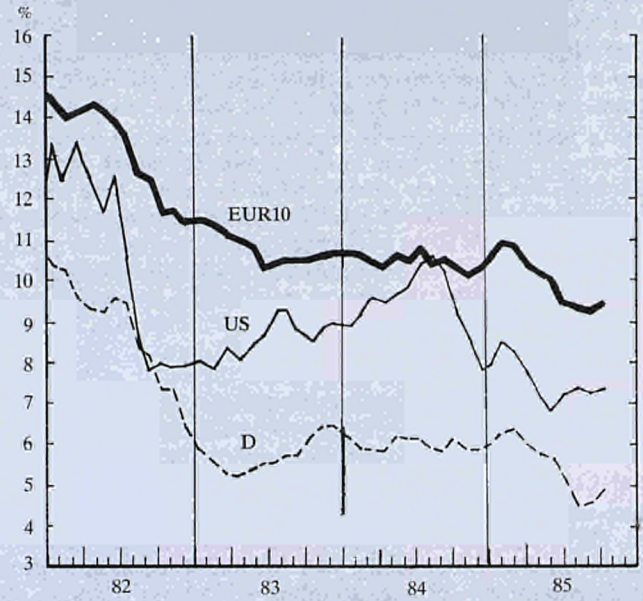


GRAPH 5 : Money supply (EUR10) and nominal GDP (EUR 4)



¹ Change over the same quarter of previous year.

GRAPH 6 : Short-term interest rates



went on falling in France. In Ireland, the three-month interbank rate remained stable. The Community average for long-term interest rates remained unchanged in August, with rises in some Member States offsetting falls in others, and fell by one-tenth of a percentage point in September to 10 %.

Dollar depreciation resumed — The announcement on September 22 by the Group of Five Finance Ministers that they would cooperate more closely to encourage «some further orderly appreciation of main non-dollar currencies against the dollar» and the subsequent interventions of major central banks, set the dollar back on its depreciating trend against the ECU. This downward trend had been in evidence since May 1985, but had been interrupted during September. On average for the month of October the dollar depreciated by 6,2% on September. As compared with October 1984 the monthly average of the dollar's value against the ECU was

down by 14,9% (Table A.9). The October-average value of the Japanese Yen against the ECU was up 3,3% compared to September and was 0,1% higher than a year earlier.

During September and October there were no signs of strains in the EMS. The relative positions of the currencies participating in the exchange rate mechanism were somewhat reshuffled following the dollar readjustment and remained roughly unchanged afterwards. While the lira and the French franc were at the top of the fluctuation band, the Belgian franc remained at the bottom. No currency approached the currency threshold. The Pound Sterling fell by 2,0% against the ECU from September to October, but is still 1,5% above its level of October 1984.

25 November 1985

Publication of the Commission's Annual Economic Report 1985-86

The Annual Economic Report for 1985-86 builds on the report adopted by the Council last year the principal theme of which was the need to achieve a substantial and durable improvement in the employment situation.

Its coverage has been extended by proposals for a cooperative strategy calling for balanced contributions from the Community Member States' governments and the social partners. This strategy, for which a combination of different economic policy instruments will need to be deployed, will be even more effective if it is able to count on international cooperation.

Given a plausible margin of uncertainty as far as world developments are concerned, such a policy should make possible the achievement of an increase in the economic growth rate in the Community from its present level of 2.5% to an average of 3 — 3.5% over the next few years and at the same time make growth much more employment-creating. This would produce an average annual increase of 1-1.5% in employment, opening up the prospect of unemployment being brought down to around 7% by 1990.

Such a development is only possible, however, when all concerned — the Community, national governments, employers and unions — work fully together to implement the proposed strategy.

The Commission has adopted the Annual Economic Report for 1985-86, which has been sent to the Council for adoption, after consultation of Parliament and of the Economic and Social Committee.

In line with the Commission decision on convergence dating from 1974, the annual reports take stock of the economic situation in the Community and formulate economic policy recommendations. For a number of years, though, the structural nature of the economic problems facing the Community has gradually led the Commission to carry out analyses and to make recommendations that go beyond the cyclical framework.

Cooperative strategy to boost investment and employment. —

The forecasts currently available indicate that, on the basis of present policies and behaviour, growth in the Community will probably continue in the medium term without, however, exceeding 2.5% a year. This could bring about only a modest improvement in the employment situation, with the result that the unemployment rate will probably not fall significantly between now and the end of the 1980s. A disorderly adjustment process in the United States and a worsening of the developing countries' debt problems would make the outlook even more gloomy.

Under the circumstances, the unemployment problem can be resolved only if there is a fundamental improvement in the relationship between growth and employment, that is to say, if more jobs are created for each percentage point of growth. If the relationship were the same as in the 1960s, medium-term growth rates in excess of 6% would be needed to secure the increase in employment now being sought. Such orders of magnitude are at present unattainable. Although there has been some improvement in recent years in that relationship, the situation is still far from satisfactory.

Strategy. — The Commission is proposing, therefore, an economic policy strategy that, without rekindling inflation, would make way for higher and, above all, more job-intensive growth in the medium term.

At macroeconomic level, more job-creating investments are needed, and this is first and foremost a task for business. Attainment of this objective will depend, in essence, on an adequate rate of return on such investments and on the existence of a favourable outlook for sales. If these conditions are to be met, real wages need to continue to increase at a moderate rate and demand needs to be maintained at an adequate level. The moderate growth in wages in recent years would have to continue until such time as unemployment had shown a significant fall. While this is a task for the social partners, the governments need to safeguard an adequate level of demand until such time as the growth process can become self-sustaining.

In particular :

— *Monetary policy* must be such as to reinforce the progress already made in combating inflation. The best way to do so is to establish within the EMS a nominal framework oriented towards economic stability. Moreover, there could be headroom for cutting interest rates on a sound basis, internally through the positive effects of the proposed strategy and externally by way of a gradual reduction in imbalances in the United States coupled with a return to a more normal exchange rate for the dollar.

If this headroom is exploited with caution and is coordinated within the EMS, an additional, not inconsiderable stimulus will be given to productive investment.

— *Budgetary policy* must aim at consolidation in the countries where public indebtedness is still excessively high and must help to underpin demand where the necessary room for manoeuvre exists. Furthermore, it should be geared to restructuring public expenditure in a manner conducive to job creation. Budgetary policy action to promote growth and employment can be reinforced as and when the positive effects of the proposed strategy work through as a result of the additional budgetary headroom. This is because the increase in growth and employment that the strategy will engender will boost general government revenue and reduce expenditure associated with the crisis.

The strategy proposed in this Annual Economic Report, however, consists not only of macroeconomic elements. Employment-creating growth also depends upon important *microeconomic conditions*. Action, with the aim of improving the adaptability of markets, and not only the labour market, should be reinforced. With regard to the labour market, the extent to which greater wage differentiation and reductions of working time, without raising costs, could benefit employment should be studied in the light of results already achieved. The national governments and the Community should also examine whether existing rules and regulations impede the functioning of markets and the setting up of new, and in particular small and medium sized businesses.

The spirit in which the debate about market adaptability is held is important for its success. The objective behind efforts to increase flexibility is not to destroy achievements made on the social front but to create more jobs. As far as at all possible, therefore, economic efficiency should be reconciled with the maintenance and further development of social achievements.

Implementation. — The strategy should gradually be transformed into reality. This applies to the cooperation in each country between governments, unions and employers. Each should make their contribution and at yearly intervals the progress should be examined in order to determine the next steps. This approach should continue over several years. This also applies, however, to cooperation between the Community countries and at an international level. Each partner should act according to their available room for manoeuvre.

Germany is the one Member State where a certain room for manoeuvre appears to exist already. In 1986, economic growth could exceed 3% and employment rise by more than 1%, so that unemployment declines, albeit slowly at first. The price outlook continues to be favourable. A considerable current account surplus and, despite the tax reform, a further significant decline in the government deficit are expected. Thus, a positive chain reaction is developing between price stability, more growth and employment and more *room for manoeuvre in the fiscal and external fields*. This room should be used for higher public investment in 1986 and bringing forward to 1987 the tax reform planned for 1988.

This appears necessary so that the favourable economic development continues in and beyond 1987. Even in Germany it is necessary to have a growth rate of some 3.5% and a rise in employment of about 1.5% per annum for several

years in order to achieve a lasting decline in unemployment. This is in both the national *and* the Community interest.

In the other countries such room for manoeuvre is not yet available. *In some of the countries*, however, it is possible that, with a certain time-lag as compared to Germany, a similar positive chain reaction could develop from more growth and employment to greater room for manoeuvre on the fiscal and external fronts. Such a development seems possible in Denmark, the Netherlands, the United Kingdom and France. Its speed will depend upon how favourably developments proceed in Germany *and* upon appropriate behaviour of the social partners in relation to the requirements of the strategy. Every effort should be made to extend the positive chain reaction as quickly as possible to this group of countries. This would also considerably improve the situation *in the other countries* where room for manoeuvre is not yet in view.

The differing situations in the Member States naturally restrict a rapid implementation of the proposed cooperative strategy. In this respect, the Community's contribution could provide a certain compensating factor. This refers not only to the accelerated completion of the internal market but above

all to the large projects of the Community interest in the fields of transport and telecommunications infrastructure and of environmental protection. The stronger the commitment of governments and the social partners to the implementation of the overall strategy, the greater the chance that the Community's contribution will succeed in being of significant macroeconomic importance.

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The application of this strategy is necessary, if a reduction in unemployment without a rekindling of inflation, is desired. It will produce positive results irrespective of the international environment. Clearly, a favourable environment will facilitate a successful outcome. However, in the uncertain conditions which exist today for the world economy because of the persistent financial imbalances in the United States and the critical problem in some large and highly indebted developing countries, the signal which would emerge from the Community embarking on a cooperative growth strategy would be far reaching.

TABLE A.1 : Industrial production¹ - Percentage change on preceding period (s.a.)

	1980	1981	1982	1983	1984	1984			1985		1985							Change over 12 months % ²
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	
B	-1.3	-2.7	0	2.0	2.4	0.2	1.7	-0.7	0.7	1.0	3.2	3.1	-4.1	0.9	4.6	-4.6	:	2.3
DK	0.2	0	2.7	3.2	9.7	0	2.4	5.1	-5.8	2.8	-3.0	-11.4	7.4	9.2	-2.8	2.6	0.7	2.3
D	0.2	-1.9	-2.9	0.6	3.0	-4.1	6.1	1.5	0.4	1.2	-0.4	0.9	-0.1	0.9	1.6	2.2	-2.5	3.9
GR	0.9	-0.6	-4.2	-0.7	3.5	0.1	0.4	0	-1.4	1.8	0.9	-2.7	0.2	5.7	-2.0	7.4	:	11.2
F	-0.7	-2.3	-1.5	0.8	2.3	-1.3	3.1	-2.5	-0.8	0.8	4.8	1.5	-2.2	1.5	-1.5	3.1	0	1.2
IRL	-0.8	2.2	0.3	6.5	12.9	7.9	-2.8	5.7	-0.3	-1.4	0.1	8.4	-5.9	0.8	-3.7	-2.2	:	-1.5
I	5.5	-1.6	-3.0	-3.2	3.1	0.6	1.8	-1.8	1.8	-0.3	8.8	0.3	-4.3	1.3	2.8	-3.8	0.2	-5.6
L	-3.3	-5.7	0.9	5.4	13.3	2.1	3.0	3.1	0.5	2.4	-3.7	7.2	0.4	-3.8	3.5	-2.5	:	4.9
NL	-1.0	-2.0	-4.1	2.1	5.2	1.0	0.3	-1.3	6.3	-4.0	-2.8	2.9	-6.5	1.0	2.9	-3.8	2.0	1.2
UK	-6.6	-3.4	1.9	3.6	1.2	-2.0	0.1	1.1	2.4	1.9	-0.4	1.7	0.7	0.4	-0.3	-1.5	0.5	4.2
EUR10	-0.5	-2.3	-1.5	0.9	2.8	-1.1	2.3	0.5	0.6	1.0	1.5	0.7	-0.9	1.1	0.9	(-0.1)	(-0.3)	(2.4)
USA	-2.9	2.1	-7.4	7.8	12.4	2.1	1.8	0.1	0.3	0.4	-0.1	0.3	0.3	0.2	(0.1)	(0.1)	(0.5)	(1.0)
JAP	4.7	1.0	0.3	3.6	11.1	2.8	1.6	2.7	-0.7	2.7	-0.1	-1.4	2.8	2.4	-2.0	(1.7)	(1.3)	(4.2)

TABLE A.2 : Unemployment rate - Number of unemployed as percentage of civilian labour force (s.a.)

	1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ²
						III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B ⁶	9.1	11.1	13.0	14.3	14.4	14.3	14.4	14.4	13.7	13.0	14.2	4.0	13.8	13.4	13.1	13.0	12.9	:
DK	6.7	8.9	9.5	10.2	9.8	9.9	9.4	9.4	8.8	(8.7)	9.2	8.9	8.9	8.8	(9.0)	(8.5)	(8.4)	(-12.6)
D	3.4	4.8	6.9	8.4	8.4	8.4	8.2	8.5	8.5	8.5	8.6	8.5	8.5	8.5	8.5	8.5	8.5	0.4
F	6.4	7.7	8.7	8.8	9.9	10.0	10.4	10.5	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.5	10.3	0.8
IRL	8.2	10.2	12.2	14.9	16.5	16.6	16.7	17.2	17.4	17.9	17.2	17.3	17.3	17.6	17.8	18.0	17.9	8.5
I	7.2	8.0	9.7	10.9	11.9	11.9	12.1	12.4	12.8	12.9	12.5	12.6	12.6	13.0	12.9	12.9	12.8	8.1
L	0.7	1.0	1.3	1.6	1.7	1.7	1.6	1.6	1.7	1.6	1.6	1.7	1.7	1.7	1.6	1.6	1.6	-6.8
NL ⁶	6.2	8.8	11.8	14.3	14.5	14.4	13.8	13.5	13.2	13.1	13.5	13.3	13.3	13.0	13.1	13.2	13.0	:
UK	(6.0)	(9.2)	(10.6)	(11.6)	11.8	11.8	11.9	12.0	12.2	12.2	12.0	12.1	12.2	12.2	12.2	12.2	12.1	1.9
EUR9	(5.8)	(7.7)	(9.3)	(10.4)	10.9	10.9	10.9	11.1	11.2	(11.2)	11.1	11.1	11.1	11.2	(11.2)	(11.2)	(11.1)	(1.3)
USA	7.1	7.6	9.7	9.6	7.5	7.5	7.2	7.3	7.3	7.1	7.3	7.3	7.3	7.3	7.3	7.0	7.1	-0.8
JAP ⁷	2.0	2.2	2.4	2.7	2.7	2.8	2.7	2.5	2.5	2.6	2.6	2.4	2.5	2.6	2.6	2.6	2.7	(-0.6)

TABLE A.3 : Consumer price index - Percentage change on preceding period

	1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ²
						III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B	6.6	7.6	8.7	7.7	6.4	1.2	0.9	1.8	1.3	0.7	0.8	0.4	0.1	0	0.5	0	0.2	4.6
DK	:	11.7	10.1	6.9	6.3	1.0	1.4	1.3	1.5	-0.1	0.8	0.3	0.7	0	-0.4	-0.1	(0.5)	(3.8)
D	5.4	6.3	5.3	3.3	2.4	0	0.7	1.1	0.6	-0.2	0.3	0.2	0.1	0.1	-0.2	-0.3	0.2	2.2
GR	24.9	24.5	21.0	20.5	18.3	1.7	5.5	4.5	4.5	2.6	2.9	1.6	0.7	1.8	-0.7	0.3	5.0	20.1
F	:	13.4	11.8	9.6	7.3	1.7	1.4	1.4	1.8	0.9	0.7	0.7	0.5	0.4	0.4	0.1	0.1	5.3
IRL ⁸	:	20.4	17.2	10.4	8.6	1.2	0.7	1.9	1.3	1.5	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	:	5.4
I	21.2	17.8	16.5	14.7	10.8	1.4	2.4	2.9	2.4	1.1	0.8	0.8	0.7	0.5	0.2	0.3	(0.4)	(8.7)
L	6.3	8.1	9.4	8.7	5.6	0.6	1.1	1.0	1.6	0.5	0.5	0.9	0.1	0.2	0.5	-0.4	0	3.9
NL	:	6.7	5.7	2.7	3.2	0.1	1.1	0.2	1.0	0	0.7	0.4	0.1	-0.1	-0.2	0	(0.5)	(2.3)
UK	18.0	11.9	8.6	4.6	5.0	0.9	1.2	1.3	3.4	0.3	0.9	2.1	0.5	0.2	-0.2	0.3	-0.1	5.9
EUR10	:	11.7	10.1	7.6	6.3	0.9	1.5	1.6	1.9	0.5	0.7	0.8	0.4	0.3	0.1	0	(0.3)	(5.3)
USA	13.5	10.3	6.2	3.2	4.3	1.1	0.7	0.7	1.2	0.7	0.4	0.4	0.4	0.3	0.2	0.2	0.2	3.1
JAP	8.0	4.9	2.7	1.9	2.2	-0.2	1.2	0.1	0.9	0	0.4	0.5	0.4	0.1	0.1	-1.0	1.0	1.7

TABLE A.4 : Volume of retail sales - Percentage change on preceding period (s.a.)

	1984					1984		1985		1985							Change over 12 months	
	1980	1981	1982	1983	1984	II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	% ²
B	..	-3.3	-1.3	-7.1	-1.8	-3.5	1.7	-1.0	0	1.1	-4.0	1.7	0.5	3.1	-3.7	..	..	0
DK	..	-0.6	1.7	1.6	3.0	1.0	0.1	0.3	-2.1	1.3	-1.1	-0.1	-1.4	5.9	-2.1	3.2	0.2	4.3
D	..	-1.4	-3.9	0.9	0.4	0.6	0.2	-1.8	-0.7	1.7	-5.2	-1.5	5.5	1.2	(-4.9)	..	..	-1.6
GR	..	-3.3	-4.1	-0.5	4.3	3.7	-0.8	-1.7	-4.4	2.0	7.6	-0.7	-0.9	-0.6	4.1	..	..	-2.3
F	..	-2.2	1.3	-3.1	-5.0	-3.4	-1.0	-2.1	1.4	-0.4	-2.9	0.7	-0.9	1.6	-0.1	..	..	-3.8
IRL	..	-0.6	-5.4	-3.5	-1.4	1.9	-1.6	1.4	-2.3	3.8	-1.4	2.0	-0.9	6.2	-0.6	-0.9	..	3.3
I	..	2.9	3.9	2.4	9.3	3.9	0.2	3.5	-1.7	0.2	-3.7	3.5	-2.4	4.7	-4.2	..	..	0.5
L ⁹	..	3.9	4.6	-5.0	-2.1	-1.3	-1.5	1.2	1.3	1.8	-0.8	1.3	-3.1	2.8	-3.5	-1.2	..	0.5
NL	..	-3.6	-2.9	-1.9	-2.7	-1.6	0.3	-0.3	-0.3	0.6	-0.1	1.2	-2.0	5.6	-5.4	0.3	7.7	4.5
UK	..	0.2	2.0	4.8	3.4	1.9	0.8	1.2	0.6	1.4	-0.5	1.1	-0.4	1.6	0.6	0	1.3	6.6
EUR10	..	-0.7	0	0.5	1.6	0.6	0.1	0.1	-0.4	0.8	-3.0	0.8	0.5	2.5	-2.6	..	..	-0.6
USA	-3.0	1.1	-1.0	7.1	8.4	2.6	-0.8	1.6	1.0	2.4	0.8	-0.5	2.9	-0.2	-1.0	(0)	(2.2)	(6.9)
JAP ⁹	-1.1	1.8	0.7	0.9	3.1	-0.7	1.8	-1.9	4.0	-0.6	-1.7	2.1	-0.5	-1.4	(0.3)	..	..	(3.3)

TABLE A.5 : Visible trade balance - fob/cif, million ECU (s.a.)

	1984					1985					1985							Change over 12 months 3	
	1980	1981	1982	1983	1984	II	III	IV	I	II	Feb.	Märch	April	May	June	July	Aug.		
B/L	-4993	-5418	-3082	-2435	-4897	-1276	-1478	-1306	-1501	-429	-768	-178	-375	-114	60	-50	:	322	
DK	-2116	-1475	-1866	-740	-1108	-383	-188	-204	-494	-306	-125	-196	-160	-216	69	-155	-110	-32	
D	3615	11239	21599	18501	24136	3846	5614	8377	6589	8631	2156	2424	2707	3125	2799	3276	2413	270	
GR	-3853	-3951	-5826	-5800	-6048	-1011	-1146	-2073	-1727	:	-563	-498	-468	:	:	:	:	-219	
F	-16948	-17283	-24457	-15628	-13130	-3332	-2450	-2736	-3810	-3028	-1610	-730	-1277	-1240	-511	-1471	-993	-211	
IRL	-1893	-2467	-1574	-621	81	195	26	-32	195	56	72	153	-109	28	136	20	79	266	
I	-15307	-13554	-12513	-8516	-13849	-3872	-2230	-5148	-5505	-5911	-1924	-1808	-2046	-1763	-2102	(-738)	:	(-543)	
NL	-2981	1320	3500	4499	4740	1858	589	1419	492	1234	387	-36	670	182	383	470	:	219	
UK	-3353	-445	-3295	-9681	-14005	-3686	-3876	-3930	-4514	-2272	-1489	-2017	-1074	-238	-960	-943	(-627)	(671)	
EUR10 ¹⁰	-47829	-32033	-27515	-20422	-24080	-7810	-5221	-6016	-10258	(-3642)	-3875	-3001	-2211	(-780)	(-651)	(-177)	:	(903)	
USA	-26113	-35538	-43518	-77969	-156288	-36181	-46099	-38116	-47958	-52238	-16942	-16364	-16.345	-17591	-18302	-13612	-12410	594	
JAP	-7707	7832	7034	23072	42599	10121	9698	14810	13114	14354	3683	3732	3974	5126	5254	4790	5132	3269	

TABLE A.6 : Money stock¹¹ - Percentage change on preceding period (s.a.)

		1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ⁴
							III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B	(M2)	2.6	5.8	5.7	8.7	5.7	1.4	0.2	3.2	1.1	..	..	..	..	..	..	..	..	6.0
DK	(M2)	8.1	9.6	11.5	25.5	17.8	3.8	5.7	-0.9	4.1	4.9	-0.9	1.4	0.8	1.9	1.2	2.2	1.5	14.4
D	(M3)	6.2	5.0	7.1	5.3	4.7	1.5	1.4	1.0	1.4	0.7	0.2	0.4	0.2	0.8	0	0.3	0.4	4.6
GR	(M3)	24.7	34.7	29.0	20.3	29.4	5.8	8.9	5.7	(7.9)	..	0.9	2.9	3.5	(1.3)	(2.2)	(2.3)	..	(30.2)
F	(M2R)	8.4	10.4	10.8	11.2	8.3	1.5	2.6	1.5	(1.4)	..	1.2	0.5	-0.8	(1.8)	(-0.3)	(0.7)	..	(7.7)
IRL	(M3)	17.7	17.4	13.0	5.6	10.1	2.9	3.8	-0.4	1.3	1.8	1.2	2.0	0.6	-1.3	0.7	1.6	-0.5	6.5
I	(M2)	12.7	9.9	16.9	13.3	12.1	3.4	2.8	4.3	3.1	..	1.3	1.3	0.7	1.0	1.1	0.8	..	14.3
NL	(M2)	3.8	5.3	7.6	10.4	7.7	2.6	1.1	3.6	-0.5	..	1.7	0.7	-0.8	-0.3	0.7	..	..	6.9
UK	(£M3)	18.5	13.7	8.9	10.3	9.8	1.3	3.0	2.2	5.8	3.0	0.9	2.9	0.5	2.3	-0.8	1.9	1.8	14.6
EUR10 ¹²		10.4	9.4	10.4	10.1	8.5	1.9	2.3	2.1	(2.5)	..	0.8	1.1	0.1	(1.3)	(0.1)	..	..	(10.0)
USA	(M2)	8.9	10.0	9.4	11.7	8.2	1.7	2.7	2.4	1.8	2.3	0.3	-0.1	0.7	1.1	0.7	0.9	0.6	9.5
JAP	(M2)	7.2	11.0	7.9	7.3	7.8	3.1	0.8	3.5	1.4	..	2.0	-0.8	0.5	1.6	-0.3	0.7	..	8.1

TABLE A.7 : Short-term interest rates¹³

		1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ⁵
							III	IV	I	II	III	April	May	June	July	Aug.	Sept.	Oct.	
B		14.2	15.6	14.1	10.5	11.5	11.0	10.7	10.7	8.9	9.4	9.8	9.3	8.9	8.9	9.6	9.4	8.9	-2.1
DK		16.9	14.9	16.4	12.1	11.5	11.3	12.0	12.0	10.3	9.4	10.5	9.4	10.3	9.5	9.3	9.4	10.0	-1.0
D		9.5	12.3	8.8	5.8	6.0	5.8	5.8	6.3	5.7	4.7	6.0	5.8	5.7	5.1	4.6	4.7	5.0	-1.1
GR		11.0	16.8	20.2	19.4	15.7	15.0	16.8	19.3	16.6	16.5	16.3	16.5	16.6	16.4	17.9	16.5	17.3	0.8
F		12.3	15.6	14.6	12.5	11.7	11.0	10.8	10.7	10.3	9.5	10.4	10.2	10.3	9.9	9.7	9.5	9.3	-1.0
IRL		16.2	16.6	17.5	14.1	13.3	13.0	15.0	13.9	11.6	10.1	12.7	12.4	11.6	10.2	10.3	10.1	10.1	-3.2
I		17.6	20.0	20.1	18.1	17.2	17.7	17.0	15.6	15.1	14.1	15.2	15.2	15.1	14.6	14.2	14.1	14.8	-2.5
NL		10.6	11.8	8.3	5.7	6.1	6.2	5.7	6.9	6.7	5.8	7.1	6.9	6.7	6.1	5.7	5.8	6.2	0.2
UK		16.8	14.2	12.2	10.1	10.1	10.8	10.0	13.2	12.6	11.5	12.7	12.5	12.6	11.2	11.7	11.5	11.7	1.1
EUR10 ¹⁴		13.4	15.0	13.2	10.8	10.5	10.5	10.2	10.8	10.1	9.3	10.4	10.2	10.1	9.5	9.4	9.3	9.5	-0.8
USA		11.6	14.0	10.6	8.7	9.5	10.2	7.8	8.2	6.8	7.3	7.8	7.1	6.8	7.3	7.4	7.3	7.4	-1.7
JAP		10.9	7.4	6.9	6.4	6.1	6.3	6.4	6.4	6.1	6.4	6.1	6.0	6.1	6.2	6.2	6.4	..	0.1

TABLE A.8 : Long-term interest rates¹⁵

		1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ⁴
							III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B		12.2	13.8	13.5	11.8	12.0	11.9	11.6	11.5	10.3	10.4	11.5	11.5	10.8	10.3	10.5	10.5	10.4	-1.5
DK		18.7	19.3	20.5	14.4	14.0	14.6	14.0	13.0	11.8	11.1	13.0	12.3	11.8	11.8	10.6	10.5	11.1	-3.5
D		8.5	10.4	9.0	7.9	7.8	7.6	7.0	7.6	6.9	6.3	7.6	7.3	7.1	6.9	6.7	6.4	6.3	-1.3
GR		17.1	17.7	15.4	18.2	18.5	16.4	17.9	18.4	17.8	14.2	18.4	18.3	15.6	17.8	14.4	14.0	14.2	-2.2
F		13.7	16.3	16.0	14.4	13.4	13.1	12.7	12.3	12.1	12.0	12.3	12.0	11.7	12.1	11.9	12.0	12.0	-1.1
IRL		15.4	17.2	17.0	13.9	14.6	15.0	14.9	13.6	12.4	11.9	13.6	13.1	13.2	12.4	11.2	11.7	11.9	-3.1
I		16.1	20.6	20.9	18.0	14.9	14.5	13.9	12.8	13.3	13.0	12.8	13.3	13.4	13.3	13.3	13.5	13.0	-1.5
L		7.4	8.6	10.4	9.8	10.3	10.4	10.0	9.7	9.6	9.3	9.7	9.7	9.7	9.6	9.4	9.4	9.3	-1.1
NL		10.7	12.2	10.5	8.8	8.6	8.4	7.8	8.6	7.8	7.4	8.6	8.0	7.9	7.8	7.7	7.3	7.4	-1.0
UK		13.9	14.8	12.7	10.8	10.8	10.6	10.8	10.7	10.7	10.3	10.7	10.7	10.8	10.7	10.3	10.4	10.3	-0.3
EUR10 ¹⁴		12.7	14.9	14.0	12.2	11.4	11.1	10.8	10.7	10.4	10.0	10.7	10.6	10.4	10.4	10.1	10.1	10.0	-1.1
USA		10.8	12.9	12.2	10.8	11.2	12.0	11.2	11.8	10.4	10.7	11.8	11.4	10.9	10.4	10.5	10.6	10.7	-1.3
JAP		9.2	8.7	8.1	7.4	6.3	6.8	6.3	6.6	6.3	5.9	6.6	6.5	6.4	6.3	6.3	6.1	5.9	-0.9

TABLE A.9 : Value of ECU - 1 ECU = ... units of national currency or SDR

		1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months % ⁵
							III	IV	I	II	III	April	May	June	July	Aug.	Sept.	Oct.	
BFR/LFR		40.60	41.29	44.68	45.44	45.44	45.25	45.01	44.66	45.12	45.13	45.03	45.09	45.23	45.30	45.05	45.04	44.82	-0.8
DKR		7.83	7.92	8.15	8.13	8.15	8.15	8.04	7.96	8.05	8.07	8.03	8.06	8.06	8.08	8.06	8.07	8.02	-0.7
DM		2.53	2.51	2.38	2.27	2.24	2.24	2.23	2.23	2.24	2.23	2.24	2.24	2.25	2.25	2.23	2.23	2.21	-1.0
DR		59.24	61.62	65.30	78.09	88.44	88.83	91.57	91.97	98.47	104.5	97.29	98.68	99.44	101.7	104.9	106.9	122.1	33.6
FF		5.87	6.04	6.43	6.77	6.87	6.87	6.84	6.81	6.83	6.81	6.82	6.83	6.84	6.84	6.80	6.79	6.74	-1.6
IRL		0.676	0.691	0.690	0.715	0.726	0.726	0.719	0.715	0.716	0.716	0.715	0.716	0.717	0.718	0.715	0.716	0.715	-0.9
LIT		1189	1263	1324	1350	1381	1380	1382	1382	1430	1484	1428	1429	1432	1466	1493	1493	1493	8.0
HFL		2.76	2.78	2.62	2.54	2.52	2.53	2.52	2.52	2.53	2.51	2.53	2.53	2.53	2.53	2.50	2.50	2.49	-1.0
UKL		0.598	0.553	0.561	0.587	0.591	0.592	0.601	0.614	0.578	0.570	0.584	0.578	0.572	0.560	0.576	0.576	0.588	-1.5
USD		1.391	1.116	0.981	0.890	0.789	0.768	0.731	0.684	0.726	0.785	0.725	0.720	0.733	0.772	0.798	0.785	0.837	14.9
YEN		315.0	245.4	243.5	211.4	187.0	186.9	179.8	176.1	182.0	187.0	182.3	181.2	182.4	186.3	189.3	185.5	179.6	-0.1
SDR		1.068	0.946	0.888	0.833	0.767	0.757	0.732	0.707	0.732	0.764	0.731	0.728	0.735	0.757	0.772	0.763	0.785	8.6

TABLE A.10 : Effective exchange rates: export aspect¹⁶ - Percentage change on preceding period

	1980	1981	1982	1983	1984	1984		1985			1985							Change over 12 months %
						III	IV	I	II	III	April	May	June	July	Aug.	Sept.	Oct.	
B/L	-0.5	-5.3	-9.2	-2.5	-1.8	0	-0.3	0.1	0	1.0	0.6	-0.2	-0.1	0.5	0.9	-0.2	1.0	2.8
DK	-7.9	-6.8	-4.0	-0.1	-2.9	-0.5	0.4	0.3	0	1.1	0.6	-0.5	0.2	0.5	1.1	-0.5	1.6	3.6
D	0.4	-5.2	5.1	4.2	-1.0	-1.4	-0.9	-0.7	1.0	2.1	1.4	-0.4	0.2	0.9	2.0	-0.4	1.8	4.9
GR	-13.5	-9.4	-7.3	-18.0	-14.4	-1.7	-4.2	-1.5	-4.9	-4.0	-1.1	-1.6	-0.3	-1.0	-2.3	-2.3	-11.7	-22.5
F	0.4	-8.6	-8.0	-6.7	-4.2	-1.2	-0.8	-0.4	1.3	2.3	1.6	-0.3	0.3	1.2	1.6	-0.2	1.8	5.8
IRL	-2.0	-8.3	-1.1	-3.4	-3.6	-0.7	0.4	0.1	-0.2	1.1	0.8	-0.5	0	0.3	1.7	-0.5	1.7	3.5
I	-3.7	-12.2	-6.7	-3.5	-5.3	-1.1	-1.5	-1.1	-1.9	-2.3	-0.1	-0.2	0.2	-1.4	-1.2	-0.4	1.1	-4.6
NL	0.1	-5.0	5.5	2.3	-1.5	-1.2	-0.6	-0.8	0.7	1.9	0.9	-0.2	0.3	0.7	1.7	-0.2	1.2	3.5
UK	10.1	1.1	-4.6	-7.0	-4.4	-1.8	-3.4	-3.6	9.1	3.6	5.9	1.0	1.6	3.8	-2.0	-0.4	-1.0	6.2
ECU	2.2	-14.9	-5.5	-5.3	-8.2	-3.2	-3.3	-2.7	4.4	4.1	4.7	-0.4	1.1	2.6	1.8	-1.0	2.2	8.2
USA	-0.3	14.0	12.1	7.1	8.9	6.3	3.2	6.2	-3.4	-5.7	-4.8	0.5	-1.3	-4.0	-2.2	1.3	-5.4	-8.8
JAP	-4.1	14.0	-4.8	11.5	6.6	-1.9	1.3	-0.6	0.4	1.1	-0.7	0.1	0.3	0.3	0.2	1.4	6.8	9.0

Principal economic policy measures — October 1985

Community (EC)

17.10 The Commission adopted its Annual Economic Report 1985-1986 entitled «A cooperative growth strategy for more employment» (COM(85)570 final — see elsewhere in this issue).

The adoption of the Report was proposed to the Council, after the European Parliament and the Economic and Social Committee had been consulted.

Belgium (B)

27.9 A Royal Decree was published which maintains the 6% reduced rate of VAT chargeable on building work until 30 April 1986, instead of 31 December 1985.

17.10 The Banque Nationale reduced the discount rate from 9,50% to 9% and the rate for advances from 10% to 9,50%.

Denmark (DK)

None.

Federal Republic of Germany (D)

None.

Greece (GR)

2.10 The Minister for Labour announced the preparation of a number of decree-laws which will prohibit workers from combining employment in the private sector with employment in public enterprises, abolish overtime, and make it legal for a fourth shift to be worked in industry and the craft industries.

12.10 On 11. October 1985, the drachma was devalued by 15%. The following accompanying measures were taken:

Prices and incomes policy: (a) the present indexation system will be modified from 1 January 1986 so that the adjustment of nominal wages is based on the anticipated increase in prices in the next four months (instead of the inflation observed in the preceding four months), less an amount corresponding to the effect of imported inflation; (b) a uniform wages policy will be applied in both the private and the public sector, and for 1986 and 1987 legislative provisions will be adopted which will state that earnings may not rise by more than the rate obtained with the new indexation system; (c) the indexation due on 1 January 1986 will be omitted for workers in the private and public sectors whose total gross monthly pay was over DRA 150 000 on 31 December 1985; (d) agricultural prices which are below the anticipated rate of inflation will be increased; (e) the disposable income of entrepreneurs and the self-employed will be reduced by measures to combat tax evasion. A special once-and-for-all tax will be levied on the profits of enterprises and the professions; (f) effective price control will be exercised especially on imported products.

Budgetary policy: The total public sector deficit is to be reduced by four percentage points of GNP from that of 1985. This will be done by: (1) reducing the rate of increase of central government budget expenditure, notably by limiting recruitment and interest rate subsidies; (2) strict control of government ministries' expenditure which is to be kept within the limits set by the central government budget; (3) increasing the tax yield, by combating the different forms of tax evasion; (4) introducing the systematic monitoring of public enterprises and institutions in order to limit their deficit by reducing their operating expenditure and gradually readjusting their tariffs.

Monetary policy: As part of the effort to restructure interest rates, it will be obligatory for the base lending rate to be one percentage point higher than the interest rate on savings deposits in commercial banks. These provisions apply to short-term loans only. The process of rationalizing the banking system will continue.

Additional measures to reduce the balance of payments deficit: As a temporary measure, a compulsory six-month deposit will have to be lodged with the Bank of Greece for a wide range of imports: the deposit will equal 40% or 80% of the value of the imports, depending on their nature. Central government procurement and other public sector purchases will be strictly controlled and reduced.

15.10 By order of the Governor of the Bank of Greece, lending rates were, with effect from 1 November, raised to 16% for the working capital of craft workers, farmers and cooperatives, and from 20,5% to 21,5% for bank overdrafts.

17.10 The Higher Economic Policy Council decided that ailing enterprises (Law No. 1386/83) and enterprises which have heavy debts would be taken over by central government and the banks. There are arrangements for settling the debts of viable companies and the issue of equity. The others will be closed.

26.10 The Ministry of Commerce set up a department to monitor international prices in order to prevent national or multinational companies operating on Greek territory from over- or under-charging.

France (F)

2.10 The Government adopted the plan for a fifth instalment of the special fund for major works, to be financed by a 2,5 centimes per litre increase in the specific tax on petroleum products. The fifth instalment will consist of FF 6.000 million in subsidies and relates primarily to road infrastructure, the building of new sections of motorways, new public transport facilities, energy saving and housing.

10.10 The Banque de France reduced its money market intervention rate by a quarter of a percentage point, from 9 3/8% to 9 1/8%.

17.10 Because of the breakdown of talks between landlord and tenant representatives on the National Committee for tenant-landlord relationships, the Ministry for Town Planning, Housing and Transport pegged the 1986 rent increase to the rise in the construction index. The latest statistics indicate that this index will rise by an annualized 2,96%.

23.10 Under the draft law on the simplification of social security procedures, the contributions of part-time workers and their employers will from now on be based on a «pro rata» ceiling. For a half-time wage, for example, the ceiling will be reduced from FF 9.060 to FF 4 530. The public authorities believe that this reform, which will not enter into force until July 1986, should make it easier to change to part-time work and to develop schemes for gradually reducing the number of hours worked, in preparation for retirement.

29.10 An agreement on the future of the unemployment insurance scheme was signed between employers' organizations (represented by the CNPF and the CGPME), and the unions (represented by the CFDT, the FO, the CFTC and the CGC). Employers' and employees' contributions will each be increased by 0,19% (making a total of 0,38%), and unemployment benefits will be slightly reduced in order to bring about a lasting reduction in the unemployment fund (UNEDIC) deficit.

Ireland (IRL)

23.10 The Government announced a new package of economic measures designed to generate employment, including various schemes to rehabilitate inner city areas, the extension of the national gas grid pipeline and additional capital incentives for the tourism industry. The package also includes a number of taxation measures, including measures to improve tax collection and prevent evasion, and the exemption of employers from social insurance contributions (up to end March 1986) in respect of certain categories of employees. In addition, the scope for modifying the social insurance scheme (employers' contributions), in favour of labour intensive industries, is to be investigated. The package will cost IRL 25 million in 1986 and will be funded by reductions in less essential expenditure.

Italy (I)

16.10 The Minister for Foreign Trade promulgated two decree-laws representing a step towards the liberalization of exchange controls. The rule which required exporters to use foreign currencies to finance 25% of credits granted to customers is abolished. The size of the non-interest-bearing deposit which has to be made for the purchase of foreign securities was unified at 25% of the sum invested; formerly it was 50% or 40%, depending on the origin of the securities. Other measures include abolition of the ban on residents surrendering foreign currencies to one another; the rule which requires cover to be constituted in foreign currency for the advance payment of imports will now apply only to imports in excess of LIT 10 million; residents will be allowed to convert foreign exchange deposits into other currencies; credit cards may be used not only to pay for holidays but also to buy everyday articles, provided that spending stays within the foreign currency allowance granted for each journey.

Luxembourg (L)

None.

Netherlands (NL)

None.

United Kingdom (UK)

None.

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